

EQ at the Heart of Performance

The Business Case for Emotional Intelligence

Joshua Freedman & Todd Everett, MBA

Institute for Organizational Performance • www.EQPerformance.com

The Business Case for Emotional Intelligence

| | |
|--|-----------|
| Executive Summary | 3 |
| Introduction | 4 |
| What is Emotional Intelligence? | 5 |
| The Customer's Perspective: Sales and Customer Loyalty | 7 |
| The Internal Business Perspective: Retention & Recruitment..... | 9 |
| The Bottom Line Perspective: Leadership and Performance | 11 |
| Companies Deploying EQ..... | 13 |
| Conclusion | 14 |
| Further Reading..... | 15 |

Executive Summary

Emotional intelligence (EQ) is the ability to use emotions effectively. Since the publication of the initial research in 1990, innovative organizations have begun testing how to integrate EQ into training and hiring to gain competitive advantage. It is becoming increasingly clear that these skills are the foundation of high-performing organizations.

A range of implementation strategies have been used, primarily in selection and training. While the competencies are learnable, best-practices are just beginning to emerge. Some of the EQ applications in business that have increased revenues are:

- increased sales performance through recruiting and training more emotionally intelligent salespeople.
- improved customer service through recruiting higher EQ customer service reps.
- superior leadership performance by developing and recruiting for executive EQ.

Companies have demonstrated that using EQ in training and organizational climate change can reduce costs associated with turnover, absenteeism, and low performance.

Research has provided clear evidence that emotionally intelligent leaders are more successful. Daniel Goleman, author of the best-selling book *Emotional Intelligence*, estimated that 90% of the difference between a “good leader” and an “excellent leader” can be attributed to EQ. At PepsiCo, for example, executives selected for EQ competencies far outperformed their colleagues.

Organizations that have a climate where employees feel a strong sense of relationship (i.e. are emotionally engaged) have significantly higher profitability, and emotional intelligence appears key to this competitive advantage.

Introduction

Emotional intelligence (EQ) is emerging as a critical factor for sustaining high performance. World-leading organizations, including the US Air Force, American Express, 3M, and Motorola, are adopting EQ practices in their way of doing business. Increasingly, businesses are turning to EQ seeking a systemic solution to critical challenges in sales, customer loyalty, retention, productivity, and leadership.

What's driving this interest? Is emotional intelligence "just a fad," or does the science offer new insight and tools that genuinely affect performance? And if EQ is so important, how do leaders find their way to the value amidst the hype?

The Harvard Business Review (HBR), one of the most prestigious sources of business-best-practice, has released several articles on emotional intelligence. Their 1997 article by psychologist and author Daniel Goleman ranks as their most requested article ever. This popularity led the HBR to re-examine the data on emotional intelligence again in 2003. Their conclusion:

"In hard times, the soft stuff often goes away. But emotional intelligence, it turns out, isn't so soft. If emotional obliviousness jeopardizes your ability to perform, fend off aggressors, or be compassionate in a crisis, no amount of attention to the bottom line will protect your career. Emotional intelligence isn't a luxury you can dispense with in tough times. It's a basic tool that, deployed with finesse, is the key to professional success."¹

Your organization is made of people, processes, and property. For a long time, "common wisdom" has been that returns come from investing in the latter two. Yet, in the last decades, a flood of research has challenged that assumption and is increasingly proving that a company's people are the differentiating factor. Since emotional intelligence is all about "people smarts" -- about relating to yourself and others -- it's no surprise that EQ plays a major role in this dimension.

What is Emotional Intelligence?

Emotional intelligence is the ability to perceive emotions, to access and generate emotions so as to assist thought, to understand emotions and emotional knowledge, and to reflectively regulate emotions so as to promote emotional and intellectual growth.

- Mayer & Salovey, 1997.

Most people first heard the term "emotional intelligence" around 1995 with the publication of Daniel Goleman's best-selling book *Emotional Intelligence*. In that work, Goleman laid out a powerful case that such factors as self-awareness, self-discipline, and empathy determine personal and professional success. He drew on the work of numerous leading scientists and authors who were working to define and measure the skills of emotional intelligence.²

While researchers once said emotions are in the way of thinking, in the last decades they've found that emotions are the key to thinking. EQ researchers are identifying:

- The way emotions and thinking interact to create our awareness and decision-making.
- How emotions are essential to successful human interaction.
- What processes are involved in learning to use and manage emotions more effectively.

The research is beginning to demonstrate what many writers, consultants, and other observers had long recognized – that the most successful people were not necessarily those with high IQs but rather those with highly developed interpersonal and social skills.

What is EQ?

Some people just know how to get along with others; some people are more self-confident, and some are great at inspiring people. All these come from a set of skills called emotional intelligence, or EQ. Additional EQ skills are identifying and changing emotions, motivating yourself, and empathizing with another person. Almost anyone can learn the EQ skills to build more successful relationships. For children, an important result of emotional intelligence is stronger friendships and better grades. For adults, EQ skills are critical for leadership, teamwork, customer care, personal relationships, and for health.

Peter Salovey is a dean and professor of psychology at Yale University. Jack Mayer is a professor at the University of New Hampshire. The two psychologists published the first academic definition of emotional intelligence in 1990, and have continued as the leading researchers in the field.

Reuven BarOn, a psychologist and researcher at University of Texas Medical Branch, is another pioneer in the field. He created the first validated measure of "emotionally intelligent behavior," the EQ-i. Most psychologists and academic researchers now agree EQ is an intelligence that is separate from cognitive intelligence (IQ) and has components that are different from traditional measures of personality.

Now there are several statistically reliable measures of emotional intelligence and emotional competence, and these measures are being used to demonstrate the links between emotional intelligence and performance.

The challenge is to see the value of emotional intelligence, then to begin using these skills on a daily basis. Everyone has emotional intelligence -- for most of us, it's an underdeveloped area and an untapped resource. Peter Salovey said, "Yes we can control emotions. The trick is doing it in the right way at the right time."³ It's not a new idea; Around 350 BC, Aristotle wrote, "Anyone can become angry -- that is easy. But to be angry with the right person, to the right degree, at the right time, for the right purpose, and in the right way-that is not easy."

Emotional intelligence remains an emerging science. The research progress in the last 15 years is remarkable -- but research into other intelligences has been underway for over 100 years. Meanwhile, hundreds of consultants, practitioners, and authors, and millions of people, are utilizing the new findings to gain a better understanding of themselves and others -- and to improve performance in leadership, recruitment, retention, sales, and team work in a range of organizations.

Glossary

Emotional intelligence: a scientifically validated function of the human brain to process and utilize emotional information.

EI: abbreviation for "emotional intelligence."

EQ: abbreviation for "emotional quotient," similar to "intelligence quotient," also used to mean "emotional intelligence."

The Customer's Perspective: Sales and Customer Loyalty

Whatever kind of organization you run, a primary measure of success will be the way your customers perceive you. Your organization's ability to attract and retain customers requires far more than customer satisfaction -- as Benjamin Schneider recently wrote in the Sloan Management Review, to create loyal customers, organizations must endeavor for "customer delight."⁴

Emotional intelligence is at the core of relationships, and a sales maxim is that "relationships are everything." Just how much do relationship factors affect sales and the customer's view of your organization? And what internal skills do your people need to create customer delight?

The Forum Corporation on Manufacturing and Service Companies conducted extensive studies asking why customers left vendors. 30% of the reasons related to product quality and technical excellence. 70% related to emotional and relationship factors.⁵ If you think about your own vendors -- from corporate needs to personal shopping -- how likely are you to remain loyal to a company that seems uncaring, disinterested, unresponsive, or distant?

At L'Oreal, sales agents selected on the basis of certain emotional competencies significantly outsold salespeople selected using the company's standard selection procedure. On an annual basis, salespeople selected on the basis of emotional competence sold \$91,370 more than other salespeople did, for a net revenue increase of \$2,558,360.⁶

Figure 1: EQ Sales Advantage

L'Oreal + \$2,558,360

MetLife + 37%

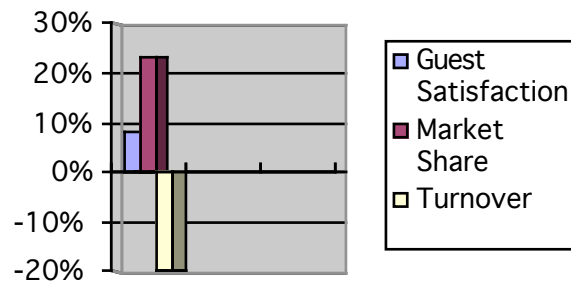
Amex Advisors + 2%

Likewise, when MetLife selected salespeople on the basis of optimism -- one of the emotional intelligence competencies -- they outsold other MetLife salespeople by 37%. So the emotional skills of people in your organization have a profound affect on the relationship between the organization and your customers.

In a pioneering EQ project, American Express put a group of Financial Advisors through a three-day emotional awareness training. In the following year, the trainees' sales exceeded untrained colleagues by 2% -- which might sound minimal, but the millions of extra earnings off a three-day program convinced the company to expand EQ training.⁷

The Sheraton Studio City in Orlando engaged in a year-long project to improve guest satisfaction, sales, and employee morale and collaboration. After conducting an employee climate survey, an outside consultant pinpointed three "hotspot" areas for improvement and engaged in a series of short training sessions to raise awareness and improve EQ skills. The results were a dramatic increase in guest satisfaction and market share, and a significant reduction in turnover.⁸

Figure 2: Sheraton Hotel's EQ Training Results



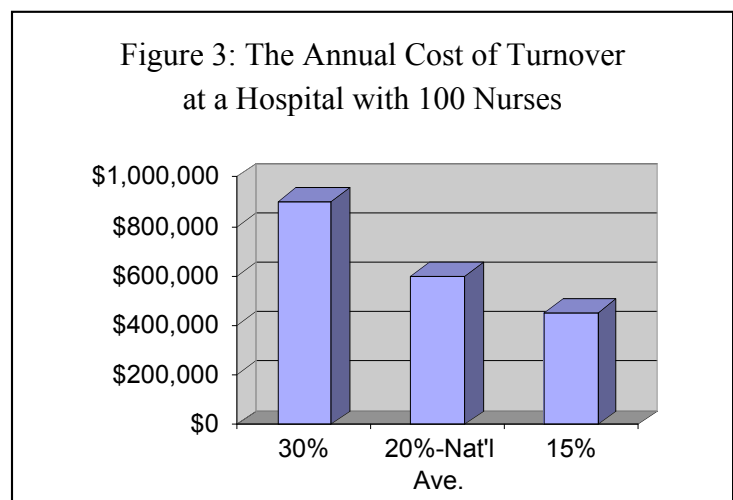
The Internal Business Perspective: Retention & Recruitment

The primary reason people leave a job is relationship based. One of the key factors is the quality of the relationship between the employee and her/his supervisor/manager. As leadership guru Richard Leider says, "People don't leave companies -- they leave leaders."⁹

What distinguishes relationships that lead to retention? Compelling evidence from Gallup shows that it's all about feelings. In their landmark research of over two million working Americans, the Gallup team identified three critical factors that predict if an employee is "engaged" -- and engaged employees are 50% more likely to stay in their jobs.¹⁰ The three factors that inspire exceptional motivation and productivity are:

- The employee feels cared for by their supervisor.
- They received recognition or praise during the past seven days from someone in a leadership position.
- They believe their employer is concerned about their development.¹¹

Healthcare provides another prime example of the link between EQ, retention and the bottom line. Reports indicate 126,000 nurses are needed now to fill vacancies at our nation's hospitals; today, fully 75% of all hospital vacancies are for nurses.¹² Future projections are dramatic: as fewer people enter the profession and experienced nurses near retirement, a 20% shortage in nurses is projected by 2020 -- which equates to a desperate need for 400,000 nurses.¹³ The national average for turnover of nurses is 20%.



If it costs \$30,000 to \$45,000 to recruit, orient and train a nurse (depending on the specialty), then a hospital staffed with 100 nurses can expect to spend at least \$600,000

per year on new recruits. While a position is vacant, it must be filled with overtime and/or agency staff. Plus, short staffing can reduce the hospital's ability to admit patients which further reduces revenue.

In one hospital with turnover of 28%, an emotional competence and stress reduction program cut turnover by almost 50% -- and the core team they trained dropped to under 2% turnover, saving \$800,000 in less than a year¹⁴ (See Figure 4).

Several studies have documented a link between

the relationships in the workplace climate and people's desire to stay on the job. In the study at L'Oreal, cited previously, the "EQ Sales Agents" had 63% less turnover during the first year.

For sales reps at a computer company, those hired based on their emotional competence were 90% more likely to finish their training than those hired on other criteria.¹⁵

At a national furniture retailer, sales people hired based on emotional competence had half the dropout rate during their first year.¹⁶

Given the emerging data, many organizations are seeking to gain this performance advantage and are using emotional intelligence testing as part of the recruitment and hiring process.

The US Air Force spends millions of dollars on recruitment every year -- but their professional recruiters were only picking up an average of one recruit per month. A \$10,000 investment in EQ testing let them profile the top performers, and in one year they saved \$2.7 million¹⁷ (Figure 5). Ultimately the General Accounting Office requested that the Secretary of Defense order all branches of the armed forces to adopt this procedure in recruitment and selection.¹⁸

Figure 4: EQ Training's Dramatic Effects on Turnover

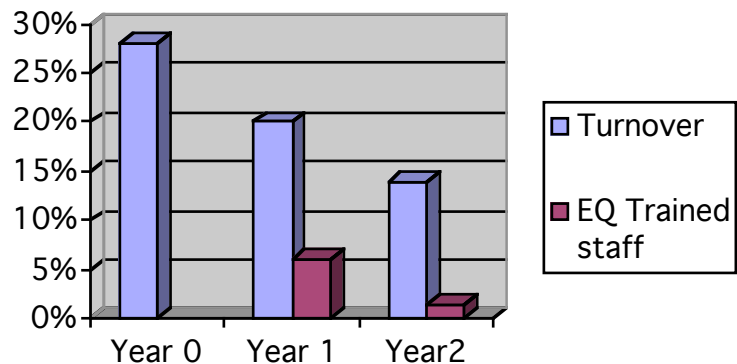
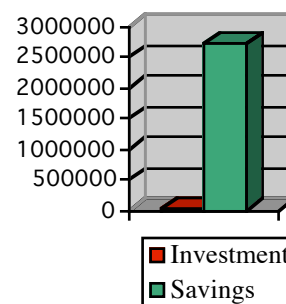


Figure 5: US Air Force Savings From EQ Testing



The Bottom Line Perspective: Leadership and Performance

In *Working With Emotional Intelligence*, Daniel Goleman reported that 80-90% of the competencies that differentiate top performers are in the domain of emotional intelligence.¹⁹ While IQ and other factors are important, it's clear that emotional intelligence is essential to optimal performance.

The Harvard Business Review recently reminded leaders that their excellence begins and ends with their inner resources:

"Executives who fail to develop self-awareness risk falling into an emotionally deadening routine that threatens their true selves. Indeed a reluctance to explore your inner landscape not only weakens your own motivation but can also corrode your ability to inspire others."²⁰

In a landmark study of one of the UK's largest restaurant groups, there was clear evidence that emotionally intelligent leaders were more effective. Managers high in emotional intelligence had restaurants that outperformed others with increased guest satisfaction, lower turnover, and 34% greater profit growth.²¹

The link between EQ and leadership was also clear at PepsiCo. In a pilot project, executives selected for EQ competencies far outperformed their colleagues, delivering:

- 10% increase in productivity.
- 87% decrease in executive turnover (\$4m).
- \$3.75m added economic value.
- over 1000% return on investment.²²

In organizations where leadership is most visible, the affect (emotional behavior) of the leaders plays a major role. You can see this clearly in the way some teams "walk on tip toes" when the boss is "having a bad day." Perhaps that's why one study showed the most effective leaders in the US Navy use EQ behaviors -- they are warmer, more outgoing, emotionally expressive, dramatic, and sociable.²³

A study of 358 leaders within Johnson and Johnson identified a strong link between superior performing leaders and emotional competence. The conclusion is powerful: **"Emotional competence differentiates successful leaders."**²⁴

Shifting to productivity, several studies link emotional competence in individuals and leadership to the ability to get work accomplished. For example, a major sales study showed top performing sales clerks are 12 times more productive than those at the bottom and 85 % more productive than an average performer. About one-third of this difference is due to technical skill and cognitive ability while two-thirds is due to emotional competence.²⁵

One inhibitor to productivity is absenteeism -- and emotional competencies tied to stress management are key to reducing this human and financial cost. Workers with high work pressures and poor time management skills are twice as likely to miss work; employees who have strong self-management skills cope better with work pressures.²⁶

Productivity is also tied to the relationship between the individual and the workplace. Almost a third of someone's productivity can be attributed to four "human" factors. 28% of productivity is predicted by the presence of useful feedback, choice in work, seeing the value of the work, and having a positive climate.²⁷ Research conducted at the Deming Center for Quality Management found 50% of time wasted in business is due to lack of trust²⁸

In other words, emotional intelligence has a profound impact on productivity and **individual success**. Perhaps that's one reason why after a Motorola manufacturing facility used HeartMath's stress and EQ programs, 93% of employees had an increase in productivity.²⁹

Likewise, after supervisors in a manufacturing plant received training in emotional competencies, lost-time accidents were reduced by 50%, formal grievances were reduced from an average of 15 per year to 3 per year, and the plant exceeded productivity goals by \$250,000.³⁰

The Gallup research on "engagement" (a sense of emotional connection to the organization) makes the case for the financial rewards of enhancing EQ in organizations. Teams with higher engagement -- caring -- were:

- 50% more likely to have lower turnover.
- 56% more likely to have higher-than-average customer loyalty.
- 38% more likely to have above-average productivity.
- 27% more likely to report higher profitability.³¹

Companies Deploying EQ

Businesses around the world are incorporating EQ into their HR practices and systems. Some of the leaders are the following:

- Alberto Culver (consumer products, \$2.8 bil.): team development and motivation for **sales and management**
- Avon Products (personal care products, \$6.9 bil.): **management training, performance reviews**
- American Express Financial Advisors (financial services, \$5.6 bil.): **sales training**
- Becton Dickinson & Co. (health care products, \$4.5 bil.): **senior leadership development**
- Boeing (aerospace and defense, \$50 bil.): **executive leadership development**
- Ethicon (subsidiary of J&J, medical devices): **leadership training**
- Hilton (lodging, \$2.9 bil.): **customer service leadership**
- Honeywell (technology and manufacturing, \$23.1 bil.): **leadership training for high potential middle managers**
- Johnson & Johnson (pharmaceuticals, \$41.9 bil.): **leadership training, performance evaluation, and succession planning**
- L'Oreal (personal care products, \$15.0 bil.): **recruitment**
- MetLife (insurance, \$35.8 bil.): **sales training, recruitment**
- McNeil (subsidiary of J&J, pharmaceuticals, \$6.0 bil.): **leadership training**
- Motorola (telecommunications/electronics, \$27.1 bil.): **stress management, training**
- Nichols Aluminum (subsidiary of Qualex, metal fabrication, \$1.1 bil.): **senior management training on change management and external relations**
- PSEG (diversified energy company, \$11.1 bil.): **leadership training and team development**
- Roche Pharmaceutical (subsidiary of Roche Group, pharmaceuticals, \$21.4 bil.): **team development and customer service training.**
- Whitbread PLC (hospitality and leisure, \$2.8 bil.): **management training and hiring**
- Woodside Australian Energy: (Australian energy services, \$.9 bil.): **executive coaching**

Conclusion

Bolstered by the compelling data that "soft skills" produce "hard results," some leaders are taking the challenge to create more robust, vigorous organizations -- not through bricks and mortar, but by investing in people.

In an era of unprecedented business challenge, these skills matter like never before. In the words of Doug Lennick, VP of American Express Financial Advisors, emotional intelligence is the breakthrough ingredient for leaders committed to sustainable success:

"Emotional competence is the single most important personal quality that each of us must develop and access to experience a breakthrough."³²

Perhaps the best news: Many of the companies experiencing powerful results from EQ have done so with a modest investment of time and money. The American Express Financial Advisors project started with 12 hours of training. The Sheraton turn-around included under 24 hours of EQ training. The Air Force project cost around \$10,000 in assessments. In other words, improving organizational EQ is within reach – and the return far exceeds the investment.

Leaders are learning that emotional intelligence isn't just a new label for sales techniques or a repackaging of feel-good aphorism -- they're coming to recognize emotional intelligence as a core skill-set that underlies performance, and they're committing to bring these assets on board. As Andrea Jung, Chair and CEO of Avon Products, says "Emotional intelligence is in our DNA here at Avon because relationships are critical at every stage of our business."³³ With over \$8 billion in sales and \$1.2 billion in profits,³⁴ Jung is talking about an impressive strand of "DNA." The bottom line: EQ is a Blue Chip investment.

Further Reading

Books:

Executive EQ, Robert Cooper and Ayman Sawaf

The Emotionally Intelligent Manager, David Caruso and Peter Salovey

Working With Emotional Intelligence, Daniel Goleman

Primal Leadership, Daniel Goleman, Richard Boyatzis, and Annie McKee

The EQ Learning Journal, Joshua Freedman and Anabel Jensen

Web Sites:

www.EQPerformance.com - Institute for Organizational Performance, research-based training and consulting

www.HealthRetention.com - Institute for Healthcare Retention, improving healthcare climates to reduce turnover and increase performance

www.EQ.org - directory of hundreds of EQ web sites and services

www.Eiconsortium.org - research on application of EQ in organizations

www.NexusEQ.com - premier international EQ conference

www.EQtoday.com - emotional intelligence magazine

About the Authors

Joshua Freedman is an expert in teaching emotional intelligence to improve the organizational climate. Director of Programs for Six Seconds EQ Network (www.6seconds.org), Joshua has served as a master trainer for hundreds of professionals on five continents. He is the coauthor of *the EQ Learning Journal*, two volumes of the *Self-Science EQ Curriculum*, the *Handle With Care EQ Activity Book*, and numerous articles and training tools to help people bring more emotional intelligence into their personal and professional lives.

Todd Everett is an executive coach and organizational change consultant. Manager of Organizational Programs at Six Seconds (EQPerformance.com), Todd works with leaders and managers to strengthen their emotional intelligence to build more effective relationships with their superiors, peers, and staff. He designs organizational programs, co-facilitates EQ trainings, and develops programming for the international NexusEQ conferences. Todd's professional background includes 20 years as a sales and marketing executive with a national real estate company, a Silicon Valley software startup, and the world's #1 active travel company.

End Notes

¹ Harvard Business Review, "Breakthrough Ideas for Tomorrow's Business Agenda," April 2003

² Daniel Goleman, *Emotional Intelligence: Why it can matter more than IQ*. New York: Bantam, 1995

³ Peter Salovey, personal correspondence to Joshua Freedman, unpublished, 2003

⁴ Benjamin Schneider, "Understanding Customer Delight and Outrage," Sloan Management Review Fall, 1999. Also see, T.O. Jones and W.E. Sasser, Jr., "Why Satisfied Customers Defect," Harvard Business Review, volume 73, November-December 1995, pp. 88-99

⁵ Richard C. Whiteley, *The Customer Driven Company: Moving from Talk to Action* (Reading, Massachusetts, Addison-Wesley, 1991 pp.9-10 (Based on a 1988 survey of 2,374 customers of 14 companies by the Forum Corporation)

⁶ Spencer & Spencer, 1993; Spencer, McClelland, & Kelner, 1997 (cited in Cherniss, 2003)

⁷ Kate Cannon, 1999, Conference Proceedings, NexusEQ 2000

⁸ Joshua Freedman, Case Study: Emotional Intelligence at the Sheraton Studio City Hotel, Six Seconds Institute For Organizational Performance, 2003

⁹ Richard J. Leider, *The Power of Purpose*, Berrett-Koehler, 1997

-
- ¹⁰ Marcus Buckingham in Mark Border, "It's the Manager, Stupid," Fortune Magazine Oct 25, 1999
- ¹¹ Marcus Buckingham and Curt Coffman, *First, Break All the Rules: What the World's Greatest Managers Do Differently*, Simon & Schuster, 1999
- ¹² American Hospital Association's TrendWatch (www.aha.org), June 2001
- ¹³ Peter Buerhaus et al, Journal of the American Medical Association, June 14, 2000
- ¹⁴ HeartMath LLC at Delnor Hospital, using a training program that includes many emotional intelligence components, 2002
- ¹⁵ Hay/McBer Research and Innovation Group, 1997
- ¹⁶ Hay/McBer Research and Innovation Group, 1997
- ¹⁷ Richard Handley, 1999, Conference Proceedings, NexusEQ 2003
- ¹⁸ GAO "Military Recruiting: The Department of Defense Could Improve Its Recruiter Selection and Incentive Systems," submitted to Congress January 30, 1998
- ¹⁹ Daniel Goleman, *Working With Emotional Intelligence*. New York: Bantam. 1998.
- ²⁰ Harvard Business Review, "Breakthrough Ideas for Tomorrow's Business Agenda," April 2003
- ²¹ Reuven BarOn and Geetu Orme, 2003, reported in Orme and Langhorn, "Lessons learned from implementing EI programmes" pp 32-39, *Competency & Emotional Intelligence*, Volume 10, 2003
- ²² McClelland, D.C. 1998. Identifying competencies with behavioural event interviews. *Psychological Science*, 9(5) 331 - 340
- ²³ Bachman, 1988, cited in Cherniss, "The Business Case for Emotional Intelligence," 2000
- ²⁴ Kathleen Cavallo, PsyD , Emotional Competence and Leadership Excellence at Johnson & Johnson: The Emotional Intelligence and Leadership Study, CREIO 2002
- ²⁵ Daniel Goleman, *Working With Emotional Intelligence*. New York: Bantam. 1998
- ²⁶ Esther Orioli, "Transforming Workplace Stress Into Optimal Performance," Essi Systems, 1999
- ²⁷ Joshua Freedman and Carina Fiedeldej-Van Dijk, Ph.D., 2003
- ²⁸ John O. Whitney, Director, Deming Center for Quality Management
- ²⁹ HeartMath, 2003

³⁰ Pesuric & Byham, 1996

³¹ Marcus Buckingham in Mark Border, "It's the Manager, Stupid," Fortune magazine Oct 25, 1999

³² Fast Company, "How Do You Feel," June 2000

³³ Harvard Business Review, "Leading by Feel," January 2004

³⁴ Avon Annual Report, 2002